

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-KSB
(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2003

Commission File No. 0-19047

FOOD TECHNOLOGY SERVICE, INC.

(Exact name of Registrant as specified in its charter)

FLORIDA
(State of incorporation or organization)

59-2618503
(Employer Identification Number)

502 Prairie Mine Road, Mulberry, FL 33860
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (863)425-0039
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.01
par value

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes	No
<input checked="" type="checkbox"/>	<input type="checkbox"/>
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☐

The Registrant's operating revenues for its most recent fiscal year were \$1,875,994.

As of March 19, 2004, 11,001,038 shares of the Registrant's Common Stock were outstanding, and the aggregate market value of the voting stock held by non-affiliates (6,884,455 shares) was approximately \$11,910,107 based on the market price at that date.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the annual meeting of shareholders scheduled to be held May 26, 2004.

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PART I

Item 1. Description of Business

Food Technology Service, Inc., (the "Company") was organized as a Florida corporation on December 11, 1985. The Company owns and operates an irradiation facility located in Mulberry, Florida, that uses Gamma radiation produced by Cobalt 60 to treat or process various foods for insect disinfestations, shelf life extension and control of certain disease causing microorganisms. Additionally, the Company provides contract sterilization service to the food packaging, medical device and food ingredient industries.

The Company completed construction of its irradiation facility in Mulberry, Florida in December 1991 and the facility became operational on January 24, 1992. The plant was constructed mainly to irradiate fruits and vegetables for the primary purpose of extending shelf life and poultry to control Salmonella and other illness causing bacteria. Soon after the commencement of operations, it was recognized that the success of the Company would be dependent on the irradiation of poultry and red meats. This was due to the fact that most of the fresh fruits and vegetables are pre-sold in the Florida area where the extension of shelf life is not necessarily beneficial for the fruit and vegetable growers.

The rules for the irradiation of poultry were finalized by the United States Department of Agriculture ("USDA") and published in the Federal Register on September 22, 1992. However, to date only a limited amount of packaging materials for meat and poultry have been approved for use with irradiation. A food industry consortium, led by a major packaging material company, is working to gain additional approvals. The red meat industry, which has been faced with pathogen problems such as E. coli 0157:H7, supported a petition to allow irradiation of all meats that was approved by the United States Food & Drug Administration ("FDA") on December 7, 1997. However, the final regulation allowing the irradiation of red meat was not published by USDA/FSIS until February 22, 2001. Sales of poultry and red meat have been nominal to date, mainly because of slow consumer acceptance of irradiated foods. Although the Company is dedicated to the irradiation of poultry, meats and other food products, until acceptance by the public, the Company has and will continue to irradiate other products. The Company's revenue for 2003 (approximately \$1,875,994) resulted primarily from the processing of packaging, medical products and consumer goods.

The benefits of irradiation in preventing food-borne illness are well known. Food irradiation is supported by the USDA, the World Health Organization, the United States Public Health Service, the American Medical Association, the Institute of Food Technologists, and reputable scientific and medical organizations throughout America. In addition, more than forty countries have approved the irradiation of food products. The FDA has approved irradiation as a safe and effective means of processing a variety of foods. To date, the FDA has approved the irradiation of (i) pork, to control trichinosis; (ii) poultry and shell eggs, for the control of disease causing pathogens; (iii) spices, for sterilization; (iv) fresh fruits and vegetables for insect disinfestation, and to delay maturation, which extends the shelf life of many fresh fruits and vegetables; and (v) some meat to control pathogens and extend shelf life.

Management is working diligently with meat processors, food distributors and with major retailers to gain consumer acceptance for irradiated products. The Company continues to introduce marketing programs that would allow irradiated beef/poultry to be sold in the marketplace. Food Technology Service presently irradiates meat under a special FDA approval for the NASA Astronauts. There are currently several petitions awaiting FDA approval. The shellfish industry is waiting for FDA approval for shellfish. The USDA and the Food Irradiation Processing Alliance, of which the Company is a member, has petitioned the FDA to allow the irradiation of processed meats to control Listeria. The USDA has also petitioned the FDA to raise the maximum dose allowed for poultry and remove the requirement for non-barrier packaging for poultry.

The Company markets its irradiation process as a substitute for and/or a complement to other food processing methods such as canning, freezing, heat pasteurization and fumigation.

Processing Plant Operations

Procedures

Products to be irradiated are placed onto the conveying system. Some products, because of their density and pallet size, may have to be depalletized for radiation processing to ensure that the appropriate radiation dose is applied to the product. The conveying system automatically moves the product through the irradiation chamber at a predetermined rate specified by the Company's personnel. The positioning of the product relative to the radiation source and the distance of the product from the radiation source are fixed. The proper radiation dose is determined by the duration of the exposure of the product to the radiation source, which is carefully controlled to provide the desired dose. The exposure time required to achieve the desired dose will depend on the amount of Cobalt 60 in use and the density of the material exposed.

Like an airport x-ray system, the irradiation process does not make the product radioactive. Food is safe to eat immediately after processing.

The total time required to process different products varies, primarily reflecting (i) the different radiation doses required for different purposes (e.g., insect disinfestations requires a lower dose than does elimination of microorganisms), and (ii) the density of the product being irradiated. A higher or lower dose (but always within the range approved) can be applied by increasing or decreasing the time of exposure of the food to the radioactive source. Dosimeters, which measure the level of irradiation, are placed in and around the product being irradiated, and they allow the Company's personnel to ensure that proper levels have been achieved. With the addition of refrigeration inside the facility, and the current supply of Cobalt 60, the plant can handle any and all products in an efficient manner.

Personnel

As of December 31, 2003, the Company had seven employees.

Cobalt 60 Supply

During March 2003, the Company ordered an additional 800,000 curies for \$1,119,413 plus freight and installation from MDS Nordion. The Company has in place approximately 1,253,398 curies of Cobalt 60. The level of radioactivity of Cobalt 60 declines at approximately 12% per year, and new Cobalt 60 must, from time to time, be purchased to maintain an appropriate radiation level. The amount of Cobalt 60 maintained is determined by the business needs of the Company. Nordion is the Company's supplier of Cobalt 60 and has agreed to sell to the Company all of its requirements for Cobalt 60, and to accept the return of all used Cobalt 60 that have reached the end of its useful life. Cobalt 60 is available from several sources. See "Agreements with MDS Nordion" below.

Additional Uses for Irradiation

Research Services

The Company currently has agreements with industries, universities and government agencies to provide research and testing.

Medical Products, Books And Records And Packaging

The Company provides irradiation services for the sterilization of medical products and devices, books and records and packaging materials.

Plant Safety

Safety to Surrounding Community

While a radiation source does require special handling, the necessary precautions are well understood and practiced daily at numerous medical supply irradiation plants already in operation. An irradiator is not a nuclear reactor. The process does not involve any nuclear reaction. It is simply a processing plant containing a shielded area where items are exposed to a source of energy.

The Company's irradiation processing activities will not produce harmful solid, liquid or gas effluents or pollutants.

Safety to Plant Workers

As a result of long experience in designing and operating similar types of irradiation facilities, the necessary precautions for worker safety in an irradiation facility are well understood. These precautions are enforced by several federal and state agencies in the United States. The Bureau of Radiation Control, Radioactive Materials Section of the Florida Department of Health inspects the facility on an annual basis. The USDA inspects the premises whenever the Company is processing meats or poultry and the U.S. FDA inspects operations relating to both food and medical items.

Regulatory Matters

In the United States, primary responsibility for approval of food irradiation rests with the FDA. No irradiated food can be sold, unless the FDA has found that irradiation of a particular food, at specified doses, is both safe and generally effective for the intended purpose. To date, the FDA has approved the irradiation of red meats, poultry and shell eggs for the control of disease-causing microorganisms, the irradiation of all fresh fruits and vegetables for insect disinfestation and shelf life extension, the irradiation of spices for sterilization, and the irradiation of pork for the control of trichinosis. Petitions for the approval of the irradiation of shellfish and Ready-to-Eat luncheon meats are presently pending.

In general, no further approvals are necessary for the sale of irradiated fresh fruits and vegetables for shelf life extension or quarantine treatment in the United States. However, the shipment of any irradiated food for export will be subject to the rules of the country of destination. There have been illnesses caused by certain bacteria and parasites in fresh foods and the dose level required for irradiation to provide safety from these organisms is higher than currently allowed and will require an additional approval from the FDA. Some states and countries require that certain foods be quarantined on import to prevent the establishment or spread of insects commonly carried by the food. The Company has had discussions with a number of parties regarding the use of irradiation for fruit and vegetables for export and for shipment between the southern states in the United States and has successfully irradiated products for quarantine treatment that have been accepted by California and Texas.

The USDA also regulates any processing of meat and poultry, whether for irradiation, packaging or otherwise. The USDA has promulgated rules relating to such processing to ensure that the food remains safe and wholesome. In general, such rules establish standards for the implementation of the approval established by the FDA, and relate to such matters as good handling and processing practices. These rules deal with such matters as (i) minimum irradiation levels to assure effective treatment; (ii) temperature standards to prevent thawing of frozen foods; (iii) requirements for the separation of processed from non-processed foods; and (iv) labeling requirements. The USDA has already adopted rules relating to irradiation processing of pork, poultry and red meat products.

The FDA regulates the irradiation of medical devices and similar products. The Company is regulated as a contract sterilizer with the FDA. Customers having medical products sterilized by the Company must verify and document that the irradiation process sufficiently sterilizes their products.

The Company has obtained a license for the operation of its facility from the Bureau of Radiation Control, Florida Department of Health, which regulates the ownership and operation of all irradiation facilities

and equipment in the State of Florida (including, for example, hospital x-ray equipment). The agency monitors the facility's operations to make certain that all safety regulations are being met.

Other Considerations

The Company recognizes that it is seeking to extend the commercial irradiation industry into new fields in the United States, and governmental bodies may seek to impose on the Company and its business regulatory requirements not now anticipated. Currently, the transportation and sale of irradiated foods is now permitted in all 50 states. Although the Company is not aware of any significant regulatory requirements applicable to its proposed business, there can be no assurance that the Company will not encounter unanticipated regulatory requirements.

Agreements with MDS Nordion

The Company, in September 1990, entered into an agreement with MDS Nordion whereby MDS Nordion agreed to provide irradiation equipment and Cobalt 60 to the Company necessary to operate its irradiation facility. In order to secure payment of the purchase price, additional loans and future advances by MDS Nordion to the Company, the Company and MDS Nordion executed a Convertible Debenture and Mortgage and Security Agreement, both dated January 15, 1992. The balance of the debt at December 31, 2003 was \$934,157. This balance consists of \$663,194 US (the "Debt"), plus interest accruing at prime plus 1% to December 31, 2003 in the amount of \$270,963.

On October 22, 1991 the Company entered into a Reimbursement and Indemnity agreement with Nordion whereby Nordion assisted the Company in obtaining a surety bond in the sum of \$600,000 in order to meet State of Florida facility permit bonding requirements. In connection therewith the Company agreed to reimburse Nordion for any liability and expense which Nordion may sustain as a result of its commitments to the bond issuer and secured such obligation under a Mortgage and Security Agreement dated October 22, 1991. The bond continues to be in effect.

By agreements dated March 6, 2001, April 17, 2001, May 18, 2001 and November 20, 2001, the Company and MDS Nordion agreed and further confirmed that the Debt and any future advances, including payment of guarantees or indemnities to third parties made by MDS Nordion for the Company's benefit, shall be convertible at MDS Nordion's option, at any time, into Common Stock of the Company. The applicable conversion rate is determined based on 70% of the closing price of the Company's shares of Common Stock listed on NASDAQ, on the last trade date prior to the exercise of the conversion right. Nordion has waived its rights to convert interest accruing on the indebtedness from February 5, 2000 through January 1, 2005.

On February 4, 2000, in order to simplify and consolidate the existing security interests securing repayment of the (i) debt and interest; (ii) indemnity and reimbursement obligations arising from guarantees or indemnities provided by MDS Nordion to third parties for the Company's benefit; and (iii) fixture loans or advances, the Company and MDS Nordion, entered into a new Mortgage and Security Agreement. Substantially all of the assets of the Company continue to be pledged as collateral against the obligations of the Company to MDS Nordion.

In addition to Cobalt 60 purchased from MDS Nordion, MDS Nordion has stored an additional amount of Cobalt 60 at the Company's facility in anticipation of the Company's future needs. At the end of 2003, there were approximately 1,253,398 curies of Cobalt 60 both owned and stored at the Company's facility. Title in and to 251,388 curies of Cobalt 60 located at the facility remains the property of MDS Nordion and may be removed by MDS Nordion at any time.

Item 2. Description of Properties

The Company's irradiation facility and executive office are located on an approximately 4.33 acre site owned by the Company in Mulberry, Polk County, Florida. The Company purchased the site because of its convenient access to State Road 60, a major transportation artery between central Florida produce growers and the port facility in Tampa. Should the Company's first facility prove successful, the site is sufficiently large to add one or two additional irradiation chambers, thereby increasing the capacity of the facility.

The Company's irradiation facility and executive office comprise approximately 28,800 square feet, including a 2,600 square foot warehouse and loading and unloading area, a 3,200 square foot office area, and a 3,000 square foot irradiation chamber and Cobalt 60 storage cell. The Company's irradiation processing plant consists of a radiation source, an automated conveying system and operating safety controls. The heart of the plant is the radiation source. Within the processing chamber, a water-filled pool, approximately 28 feet deep, is used to shield and store the radiation source in the "off" position. The pool is enclosed in a radiation proof chamber, a double safeguard against the escape of any radiant energy. The concrete walls and roof of the processing chamber are approximately 6 feet thick and, during the times that the source is out of the pool in the "on" positions will provide safe shielding of adjacent areas such as the control room, work floor, offices and outdoor grounds. The control room contains operating and safety controls. The conveying system is used to transport products to and from the processing chamber. The Company's facility is designed to operate 24 hours per day, seven days per week. Although the Company currently has available approximately 1,253,398 curies of Cobalt 60, the facility is designed to meet international standards of radiation protection with an installed source of 7,000,000 curies. The capacity of the source racks, however, will only permit a maximum of 5,000,000 curies of Cobalt 60 to be installed.

As indicated in Item 1, substantially all of the assets of the Company are pledged as collateral against the obligation to Nordion.

Item 3. Legal Proceedings

On March 24, 2000, Pegasus Foods Canada, Inc. filed a lawsuit against the Company alleging that certain seafood products irradiated by the Company were adversely affected by the process. The lawsuit alleged damages in excess of \$2,000,000 and lost profits in excess of \$6,000,000. On February 23, 2004, the Company executed a confidential settlement agreement with the plaintiff, as a result of which, the plaintiff will not collect any damages, costs or fees from the Company. As a part of the settlement, a final judgment was entered in favor of the plaintiff, but this judgment is not enforceable against the Company or against the assets of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

None

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

(a) The following table shows the range of closing bid prices for the Company's Common Stock in the NASDAQ SmallCap market for the calendar quarters indicated. The quotations represent prices in the over-the-counter market between dealers in securities, do not include retail mark-up, markdown, or commissions and do not necessarily represent actual transactions.

BID PRICES		

2002	High	Low
----	----	----
First Quarter	\$1.68	\$1.09
Second Quarter	1.29	.72
Third Quarter	1.73	.54
Fourth Quarter	1.77	.85
2003	High	Low
----	----	----
First Quarter	\$1.19	\$.80
Second Quarter	1.20	.95
Third Quarter	1.24	.80
Fourth Quarter	1.40	.93

(b) As of December 31, 2003, the approximate number of beneficial holders of Common Stock of the Company was 3,500.

(c) The Company has paid no dividends to date and does not anticipate paying any for the foreseeable future.

Item 6. Management's Discussion and Analysis

Plan of Operations

The Company had revenues of \$1,875,994 during 2003. This compares to revenues of \$1,198,151 for the same period in 2002 and reflects an increase of approximately 56 % between the two years. As a result of this increase in revenues, the Company's operations reflected a profit of \$397,480 for 2003 compared to a loss of (\$261,774) for 2002.

Management attributes the increase in revenue during 2003 to the impact of a large intermittent customer and significant growth in our customer base. The Company has several non-food customers that require irradiation services on an intermittent basis. One such customer required services only during the first quarter of 2002 but used the Company's services during the last three quarters of 2003. This customer accounted for approximately 50% of revenues during 2003 and 19.2% of revenues during 2002. This customer has not requested the Company's services during the first quarter of 2004 and has not indicated if they will require services during the remainder of 2004. A second customer, that requires irradiation for all products produced, accounted for 14.8% of revenues during 2003 and 4.8% during 2002. Overall, our customer base increased during 2003 for all categories.

Processing costs as a percentage of revenues decreased from 30.8% in 2002 to 20.5% in 2003. Processing costs were very similar between years (\$369,399 in 2002 versus \$385,177 in 2003), which reflects the fact that such costs are relatively fixed. Selling, General and Administrative expenses as a

percentage of revenues decreased from 59.1% in 2002 to 34.6% in 2003. Actual Selling, General and Administrative expenses decreased from \$707,904 in 2002 to \$650,335 in 2003. Management attributes much of this decrease to costs associated with the introduction of a branded line of irradiated food in 2002 that did not recur in 2003.

The revenues realized in 2003 have enabled the Company to enhance its ability to accommodate future customer growth. The Company was able to purchase additional curies of Cobalt 60 during 2003 without incurring long-term debt. This allows for normal degradation of existing Cobalt 60 and provides additional processing capacity for the next few years.

Two events occurred near the end of 2003 which should enhance revenues from food products during 2004. One event was the State of California expanding the number of tropical fruits grown in South Florida that can be irradiated for the disinfestation of Caribbean fruit flies and sold in California. The number of eligible tropical fruit types was expanded from two to over eighty. The second event was the bankruptcy of a major competitor. Although there is no assurance, Management believes that the Company will be irradiating the majority of the volume of ground beef previously irradiated by that competitor by the beginning of the second quarter of 2004. These revenues should at least partly mitigate the absence of the large intermittent customer although such revenues will not be fully realized until the second quarter of 2004.

At December 31, 2003, the Company had cash of approximately \$89,410. Operating costs in 2003 were approximately \$1,478,514; up from \$1,459,925 in 2002. Management attributes this increase primarily to higher depreciation resulting from the purchase of additional Cobalt 60. Depreciation increased from \$313,888 in 2002 to \$380,446 in 2003.

At December 31, 2003, the Company's outstanding debt to Nordion amounted to \$934,157 which is evidenced by a Note and Mortgage and Security Agreement. The debt, which includes interest of \$270,963, bears interest at prime plus 1%. Such debt is due and payable on demand.

Item 7. Financial Statements

Reference is made to the Company's Financial Statements included herewith.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 8(a). Controls and Procedures

The Company's principal executive officer and principal executive officer and principal financial officer evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) as of December 31, 2003 (the "Evaluation Date"). Based on that evaluation, the principal executive officer and principal financial officer of the Company concluded that, as of the Evaluation Date, the disclosure controls and procedures, established by the Company, were adequate to ensure that information required to be disclosed by the Company in reports that the Company files under the Exchange Act, is recorded, processed, summarized and reported on a timely basis in accordance with applicable rules and regulations.

There were no changes in the internal controls over financial reporting during the fourth quarter ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

Directors and Executive Officers of the Company.

Reference is made to the Company's Proxy Statement to be used in conjunction with the 2004 Annual Shareholders Meeting scheduled to be held on May 26, 2004.

Item 10. Executive Compensation

Reference is made to the Company's Proxy Statement to be used in conjunction with the 2004 Annual Shareholders Meeting scheduled to be held on May 26, 2004.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Reference is made to the Company's Proxy Statement to be used in conjunction with the 2004 Annual Shareholders Meeting scheduled to be held on May 26, 2004.

Item 12. Certain Relationships and Related Transactions

See Item 1 Business-"Agreements with MDS Nordion."

Item 13. Exhibits and Report on Form 8-K

(a) Exhibits

- (1) Articles of Incorporation. Reference is made to Exhibit 3.1 included in the Company's Registration Statement on Form S-18 (File No. 33-36838-A).
- (2) By-Laws. Reference is made to Exhibit 3.2 included in the Company's Registration Statement on Form S-18 (File No. 33-36838-A).
- (10) Agreements entered into by the Company with MDS Nordion
 - *(a) Reimbursement and Indemnity Agreement dated October 22, 1991
 - *(b) Agreement dated December 11, 1991
 - *(c) Debenture dated January 15, 1992
 - *(d) Copy of Security & Mortgage Agreement dated January 15, 1992
 - *(e) Financing Agreement dated February 21, 1992
 - *(f) Security Agreement dated February 21, 1992
 - ** (g) Letter Agreement dated March 31, 1994 and April 13, 1994
 - *** (h) Modification Agreement
- (14) Draft Code of Ethics****.
- (31) Rule 13a-14(a)/15d-14(a) Certifications****
- (32) Section 1350 Certification****

* Reference is made to Exhibit (c)(3) included in the Company's Form 10-KSB Report filed for the year ended December 31, 1991.

** Reference is made to Exhibit 10(g) included in the Company's Form 10-KSB Report filed for the year ended December 31, 1994.

*** Reference is made to Exhibit 10(h) included in the Company's Form

10-KSB Report filed for the year ended December 31, 2000

**** Filed herewith.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the fourth quarter of the year ended December 31, 2003.

Item 14. Principle Accounting Fees and Services

Reference is made to the Company's Proxy Statement to be used in conjunction with the 2004 Annual Shareholders Meeting scheduled to be held on May 26, 2004.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized as of the 24th day of March 2004.

FOOD TECHNOLOGY SERVICE, INC.

By: /S/ Richard G. Hunter
Richard G. Hunter, Ph.D.
Chief Executive Officer and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/S/ Richard G. Hunter</u> Richard G. Hunter, Ph.D.	Director	March 24, 2004
<u>/S/ Thomas J. Daw</u> Thomas J. Daw	Director	March 24, 2004
<u>Frank M. Fraser</u>	Director	March 24, 2004
<u>/S/ David Nicholds</u> David Nicholds	Director	March 24, 2004
<u>John T. Sinnott, M.D., F.A.C.P.</u>	Director	March 24, 2004
<u>/S/ Michael W. Thomas</u> Michael W. Thomas	Director	March 24, 2004

FOOD TECHNOLOGY SERVICE, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
and Stockholders
Food Technology Service, Inc.

We have audited the accompanying balance sheets of Food Technology Service, Inc. as of December 31, 2003 and 2002 and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Food Technology Service, Inc. as of December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

FAIRCLOTH & ASSOCIATES, P.A.

/S/ FAIRCLOTH & ASSOCIATES, P.A.
Tampa, Florida
March 5, 2004

**FOOD TECHNOLOGY SERVICE, INC.
BALANCE SHEETS**

	December 31,	
	<u>2003</u>	<u>2002</u>
ASSETS		
Current Assets:		
Cash	\$89,410	\$73,758
Accounts Receivable	152,620	204,020
Inventory	<u>2,690</u>	<u>18,761</u>
Total Current Assets	<u>244,720</u>	<u>296,539</u>
Property and Equipment:		
Building	2,883,675	2,883,675
Cobalt	2,675,756	1,825,000
Furniture and Equipment	1,728,817	1,718,417
Less: Accumulated Depreciation	<u>(3,728,102)</u>	<u>(3,347,656)</u>
	3,560,146	3,079,436
Land	<u>171,654</u>	<u>171,654</u>
Total Property and Equipment	<u>3,731,800</u>	<u>3,251,090</u>
Other Assets:	<u>5,000</u>	<u>5,000</u>
Total Assets	<u><u>\$3,981,520</u></u>	<u><u>\$3,552,629</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

**FOOD TECHNOLOGY SERVICE, INC.
BALANCE SHEETS**

December 31,

2003

2002

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts Payable and Accrued Liabilities	\$34,199	\$77,361
Financing Agreement Payable	934,157	887,584
	<hr/>	<hr/>
Total Current Liabilities	968,356	964,945
	<hr/>	<hr/>

Stockholders' Equity:

Common Stock \$.01 Par Value, Authorized 20,000,000 Shares, Outstanding 11,001,038 Shares in 2003 and in 2002	110,010	110,010
Paid-In Capital	11,975,577	11,975,577
Deficit	(9,016,423)	(9,413,903)
	<hr/>	<hr/>
	3,069,164	2,671,684

Less-Common Stock Issued for Receivables	(56,000)	(84,000)
	<hr/>	<hr/>

Total Stockholders' Equity	3,013,164	2,587,684
	<hr/>	<hr/>

Commitments and Contingencies

(Notes B, I and J)	-	-
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Total Liabilities and Stockholders' Equity	\$3,981,520	\$3,552,629
	<hr/> <hr/>	<hr/> <hr/>

SEE NOTES TO FINANCIAL STATEMENTS

FOOD TECHNOLOGY SERVICE, INC.

STATEMENTS OF OPERATIONS

	Year Ended		
		December 31,	
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Net Sales	<u>\$1,509,895</u>	<u>\$1,198,151</u>	<u>\$1,875,994</u>
Processing Costs	369,218	369,399	385,177
Selling, General and Administrative	641,572	707,904	650,335
Depreciation	289,983	313,888	380,446
Interest Expense	<u>102,871</u>	<u>68,734</u>	<u>62,556</u>
	<u>1,403,644</u>	<u>1,459,925</u>	<u>1,478,514</u>
Income (Loss) before Income Taxes	106,251	(261,774)	397,480
Income Taxes	<u>32,293</u>		<u>151,000</u>
Income (Loss) before Benefit of Tax Loss Carryovers	73,958	(261,774)	246,480
Benefit of Tax Loss Carryovers	<u>32,293</u>		<u>151,000</u>
Net Income (Loss)	<u>\$106,251</u>	<u>(\$261,774)</u>	<u>\$397,480</u>
Net Income (Loss) Per Common Share	<u>\$0.010</u>	<u>(\$0.025)</u>	<u>\$0.036</u>

SEE NOTES TO FINANCIAL STATEMENTS

FOOD TECHNOLOGY SERVICE, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Deficit</u>
Balance, December 31, 2000	\$103,332	\$11,469,671	(\$9,258,380)
Issuance of 163,636 Shares of Stock for \$212,584 in Receivables and Services	1,636	210,948	
Net Income for Year	<u> </u>	<u> </u>	<u>106,251</u>
Balance, December 31, 2001	104,968	11,680,619	(9,152,129)
Issuance of 504,201 Shares of Stock upon conversion of \$300,000 of Debt	5,042	294,958	
Net Loss for Year	<u> </u>	<u> </u>	<u>(261,774)</u>
Balance, December 31, 2002	110,010	11,975,577	(9,413,903)
Net Income for Year	<u> </u>	<u> </u>	<u>397,480</u>
Balance, December 31, 2003	<u><u>\$110,010</u></u>	<u><u>\$11,975,577</u></u>	<u><u>(\$9,016,423)</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

FOOD TECHNOLOGY SERVICE, INC.
STATEMENTS OF CASH FLOWS

		Year Ended December 31,	
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Cash Flows from Operations:			
Cash Received from Customers	\$1,409,409	\$1,173,925	\$1,927,395
Interest Paid	(36,141)	(3,044)	(15,983)
Cash Paid for Operating Expenses	<u>(988,447)</u>	<u>(1,036,993)</u>	<u>(1,034,605)</u>
	384,821	133,888	876,807
Cash Flows from Investing:			
Purchase of Equipment and Cobalt	<u>(537,979)</u>	<u>(8,536)</u>	<u>(861,155)</u>
	(537,979)	(8,536)	(861,155)
Cash Flows from Financing Activities:			
Proceeds from Sale of Common Stock		93,460	
Proceeds from Borrowing	150,000		
Payment of Loans		(250,000)	
Repayment of Employee Advances	<u>150,000</u>	<u>(156,540)</u>	<u>0</u>
	150,000	(156,540)	0
Net Increase (Decrease) in Cash	(3,158)	(31,188)	15,652
Cash at Beginning of Year	<u>108,104</u>	<u>104,946</u>	<u>73,758</u>
Cash at End of Year	<u><u>\$104,946</u></u>	<u><u>\$73,758</u></u>	<u><u>\$89,410</u></u>
Reconciliation of Net Loss to			
Net Cash Provided (Used) by Operations:			
Net Income (Loss)	\$106,251	(\$261,774)	\$397,480
Adjustments to Reconcile			
Net Income (Loss) to Cash Provided or Used:			
Depreciation	289,983	313,888	380,446
Non Cash Payments of Interest and Salaries	97,229	93,699	74,573
(Increase) Decrease in Receivables	(99,818)	(24,227)	51,400
(Increase) Decrease in Inventory	(8,070)	(10,690)	16,070
Increase (Decrease) in Payables and Accruals	<u>(754)</u>	<u>23,002</u>	<u>(43,162)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$384,821</u></u>	<u><u>\$133,898</u></u>	<u><u>\$876,807</u></u>

Supplemental schedule of non-cash investing and financing activities.

The Company issued common stock for receivables of \$182,205 and services of \$30,499 in 2001 and debt of \$300,000 in 2002.

The Company also converted \$66,730 , \$65,690 and \$45,573 of interest expense to debt in 2001, 2002, and 2003 respectively.

Also receivables of \$28,000 per year were forgiven for services in 2002 and 2003 (See Note C).

SEE NOTES TO FINANCIAL STATEMENTS

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS **December 31, 2003**

Note A - Summary of Significant Accounting Policies:

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Nature of Business

The Company was organized in December 1985 to engage in the business of operating a gamma irradiation facility using Cobalt 60 to extend the shelf life of and/or disinfect fruits, vegetables and meat products and for the sterilization of medical, surgical, pharmaceutical and packaging materials.

2. Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

3. Fair Value of Financial Instruments

The fair value of financial instruments has been valued at the prevailing prime interest rate plus 1%. The fair value approximates the carrying amount of debt.

4. Revenue Recognition

Sales are recorded by the Company when the customer's product has been processed.

5. Research and Development Costs

Research and development costs are charged to expense as incurred. Such costs have not been significant to date.

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

Note A - Summary of Significant Accounting Policies (continued):

6. Depreciation

Assets other than Cobalt have been depreciated using the straight-line method over the following lives for both financial statement and tax purposes:

Building	31.5 Years
Furniture and Equipment	5-15 Years

Cobalt has been depreciated using engineering estimates from published tables under which one-half of the remaining value is written off over 5.26 year periods.

Estimated useful lives are periodically reviewed and if warranted, changes will be made resulting in acceleration of depreciation.

7. Net Loss Per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding. Diluted earnings per share are not presented because the result of using common stock equivalents in the computation is antidilutive.

8. Comprehensive Income

The only component of comprehensive income the Company has is net income.

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

Note A - Summary of Significant Accounting Policies (continued):

9. Stock Option Plans

The Company has various stock option plans for employees and other individuals providing services to or serving as Directors of the Company. (See Note G) The Company accounts for these plans under the recognition and measurement principles of APB No. 25, and related interpretations. Accordingly, compensation expense is recognized only when options are granted at an exercise price below the market price at date of grant.

If the fair value method described in SFAS No. 123 had been adopted, the net impact on the 2001, 2002, and 2003 net income would not have been material.

Note B - The Company as a Going Concern:

Management is of the opinion that the company will continue operations through December 31, 2004 based on the following:

The Company's cash flows from operations have been \$384,421, \$133,888, and \$876,807 for 2001, 2002, and 2003, respectively.

The Company's supplier (Note D) and major creditor, MDS Nordion, has guaranteed a line of credit of \$500,000 from a bank. Any future draws against this line must be approved by Nordion. At December 31, 2003, \$500,000 of this amount is available to fund 2004 operations.

The Company is processing poultry and meat products under the provisions of USDA regulations. However, revenues to date from such products have been nominal. The Company anticipates that revenue from processing packaging materials, medical supplies and other products, together with its unused credit line of \$500,000, will be sufficient to cover operating costs through December 31, 2004.

Note C - Receivables from Directors and Employees:

Pursuant to an employment agreement and stock option plans during 2001 the Company issued to Directors and employees 142,500 shares of common stock for receivables of \$182,085. Of this amount \$112,000 was due from the President under the provisions of an employment contract. Such amount is being forgiven \$28,000 per year and charged to expense over a four year period commencing September 1, 2001. The total receivables have been recorded as a reduction to equity pending collection or expensing.

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

Note D - Financing Agreement:

Financing agreement to supplier due on demand plus interest at 1% over prime	\$ 663,194
Accrued interest	<u>270,963</u>
	<u>\$ 934,157</u>

At December 31, 1999 the Company owed MDS Nordion, Inc. \$378,598 (payable in Canadian currency), \$375,732 in cash advances and \$200,146 in accrued interest totaling \$954,476. Such debt was all due January 5, 2001.

On March 6, 2000, as amended on May 18, 2000 the parties agreed to simplify and consolidate the debt as follows. The total amount of the indebtedness at February 4, 2000 was \$963,194 in U. S. dollars, which included \$22,114 accrued interest. The parties further agreed that the payable debt, interest accruing thereon, and any future advances remain, at Nordion's option, convertible at any time into common shares of the Company at 70% of the market value at date of conversion. On various dates Nordion has agreed to waive its rights to convert interest accruing on the indebtedness from February 5, 2000 through January 1, 2005.

On January 23, 2001 Nordion agreed to change the due date of the debt from January 5, 2001 to a due on demand basis.

Effective December 17, 2002 Nordion converted \$300,000 of debt for 504,201 shares of stock. Such amount was 70% of the closing market price on December 16, 2002.

All assets of the Company collateralize all sums advanced by the supplier, including accrued interest.

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2003

Note E - Income Taxes:

The Company has unused operating loss carryforwards available at December 31, 2003 of \$8,875,228 for tax and financial reporting purposes. The loss carryforwards expire as follows:

<u>Year</u>	<u>Amount</u> <u>Tax</u>	<u>Book</u>
2006	\$ 156,162	\$ 137,432
2007	1,352,015	1,352,015
2008	1,297,455	945,703
2009	1,239,590	1,239,696
2010	1,262,386	1,292,314
2011	1,048,800	1,065,209
2012	688,497	983,017
2018	647,342	573,699
2019	840,410	881,875
2020	86,215	147,912
2022	<u>256,356</u>	<u>256,356</u>
	<u>\$ 8,875,228</u>	<u>\$ 8,875,228</u>

Deferred income taxes reflect the estimated tax effect of temporary differences between assets and liabilities for financial reporting purposes and those amounts as measured by tax laws and net operating losses. The components of deferred income tax assets and liabilities at December 31, 2003 and 2002 were as follows:

	<u>2003</u>	<u>2002</u>
Net operating loss carryforwards	<u>\$3,339,748</u>	<u>\$3,491,121</u>
Net deferred tax assets	3,339,748	3,491,121
Less - Reserve	<u>(3,339,748)</u>	<u>(3,491,121)</u>
	<u>\$ 0</u>	<u>\$ 0</u>

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

Note E - Income Taxes (continued):

The net deferred tax assets have been fully reserved because there is less than a 50% chance that they will be utilized.

Note F - Stock Offerings:

During 2001 the Company issued 20,000 shares to its President pursuant to an employment agreement and 1,136 shares to an individual for public relations services. In addition 142,500 shares were issued for \$182,085 in receivables pursuant to stock option plans. Such receivables plus \$23,375 remaining from 2000 were recorded as a reduction to Stockholders' Equity pending collection (See Note C).

All shares issued for services have been ascribed the market value on the dates they were earned.

Note G - Stock Purchase Warrants and Stock Options:

The Company's policy is to issue warrants and options at or above the market value on the issue date, except for non-employee Directors in 1999. Accordingly, compensation has been recorded for warrants or options granted only to such Directors.

On November 11, 1996 the Company agreed to issue its former President 10,000 shares for services. The Company also granted him options to purchase up to 20,000 shares of stock per year at \$1 per share during the five year period ended December 8, 2001. Such options were exercised 20,000 shares in 1998, 32,000 shares in 1999, 8,000 shares in 2000 and 40,000 shares in 2001.

On May 18, 1992, the Stockholders approved the 1992 Incentive and Non-Statutory Stock Option Plan (the "1992 Plan") and on June 23, 2000 the Stockholders approved the 2000 Incentive and Non-Statutory Stock Option Plan (the "2000 Plan").

The Plans are administered by the Board of Directors who are authorized to grant incentive stock options ("ISO's") or non-statutory options ("NQO's"), to Officers and employees of the Company and for certain other individuals providing services to or serving as Directors of the Company.

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2003

Upon approval of the 2000 Plan no further options will be granted under the 1992 Plan. The maximum number of shares of the Company's Stock that may be issued under the 2000 Plan is 500,000 shares of which options to purchase

Note G - Stock Purchase Warrants and Stock Options (continued):

202,000 shares were granted in 2001, 20,000 were granted in 2002 and 60,000 were granted in 2003.

The aggregate fair market value (determined at the time an ISO is granted) of the Common Stock with respect to which ISO's are exercisable for the first time by any person during any calendar year under the Plans shall not exceed \$100,000. Any option granted in excess of the foregoing limitation shall be specifically designated as being a NQO.

On August 25, 1992, the Board of Directors authorized and issued options to buy 122,000 shares at \$8.75 per share. On August 7, 1998 the remaining 78,000 of these options were canceled and new options to purchase 105,000 shares at \$2.75 per share were issued. Such price was the market value on August 7, 1998; accordingly, no compensation was charged to operations.

The options are exercisable 20% of the authorized amount immediately and 20% in each of the following four years. ISO's and NQO's granted to an optionee terminate 30 to 90 days after termination of employment or other relationship, except that ISO's and NQO's terminate the earlier of the expiration date of the option, or 90 to 180 days in the event of death and 180 days to one year in the event of disability.

On February 9, 1999 the Board of Directors approved an option plan for non-employee Directors. Under the plan, non-employee Directors received options to purchase 3,000 shares per year plus 1,000 shares per meeting attended.

Such plan was amended on May 18, 2000 to grant such options on the date a Director is elected rather than January at the average quoted market price for the five days preceding the date of grant. Also such options may be exercised after one year. No more than 10,000 shares may be granted to each Director per year. The plan was further amended on March 1, 2001 to grant each non-employee Director options to purchase 6,000 (16,000 for the chairman in 2001 only) shares annually at the market value on the date of grant. On March 1, 2001 options to purchase 22,000 shares at \$1.375 were granted to two Directors and on May 2, 2002 and May 21, 2003 options to purchase 18,000 shares at \$.91 and \$1.02 per share, respectively, were granted to three Directors.

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2003

Note G - Stock Purchase Warrants and Stock Options (continued):

Changes that occurred in options and warrants outstanding are summarized below:

	<u>2003</u>		<u>2002</u>		<u>2001</u>	
	Shares	Average Exercise Price	Shares	Average Exercise Price	Shares	Average Exercise Price
Outstanding at beginning of year	216,566	\$1.90	182,566	\$2.11	157,156	\$2.37
Granted	78,000	\$0.99	38,000	\$0.99	202,000	\$1.43
Exercised	-	-	-	-	(149,000)	\$1.34
Expired/canceled	<u>(1,500)</u>	\$0.55	<u>(4,000)</u>	\$2.75	<u>(27,600)</u>	\$2.75
Outstanding at end of year	<u>293,056</u>	\$1.90	<u>216,566</u>	\$1.90	<u>182,556</u>	\$2.11
Exercisable at end of year	124,556	\$1.81	71,156	\$2.91	47,600	\$2.53

Note H - Related Party Transactions:

The Company's supplier of Cobalt and major creditor, MDS Nordion (Nordion) owns approximately 37.5% of the Company's outstanding common stock (see Note D for financing arrangements).

During 2001 the Company purchased 386,589 curies of Cobalt 60 from Nordion for \$514,728 and during March 2003 the Company ordered an additional 800,000

FOOD TECHNOLOGY SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2003

curies for \$1,119,413 plus freight and installation. During 2003 pursuant to this order 600,000 curies were purchased for \$861,155 in cash.

Note I - Concentration and Credit Risk:

Two customers accounted for approximately 65% of the Company's revenue in 2003.

The Company's cash and accounts receivable are subject to potential credit risk. Management continuously monitors the credit standing of the financial institutions and customers with which the Company deals.

Note J - Commitments and Contingencies:

On March 24, 2000, Pegasus Foods Canada, Inc. filed a lawsuit against the Company alleging that certain seafood products irradiated by the Company were adversely affected by the process. The lawsuit alleged damages in excess of \$2,000,000 and lost profits in excess of \$6,000,000. On February 23, 2004, the Company executed a confidential settlement agreement with the plaintiff, as a result of which, the plaintiff will not collect any damages, costs or fees from the Company. As a part of the settlement, a final judgment was entered in favor of the plaintiff, but this judgment is not enforceable against the Company or against the assets of the Company.

